Relocation, Relocation, Relocation

Daniel J.B. Mitchell's Interpretation of Harrison-McMillan for "Governing the Global Workplace" April 15, 2005

HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS

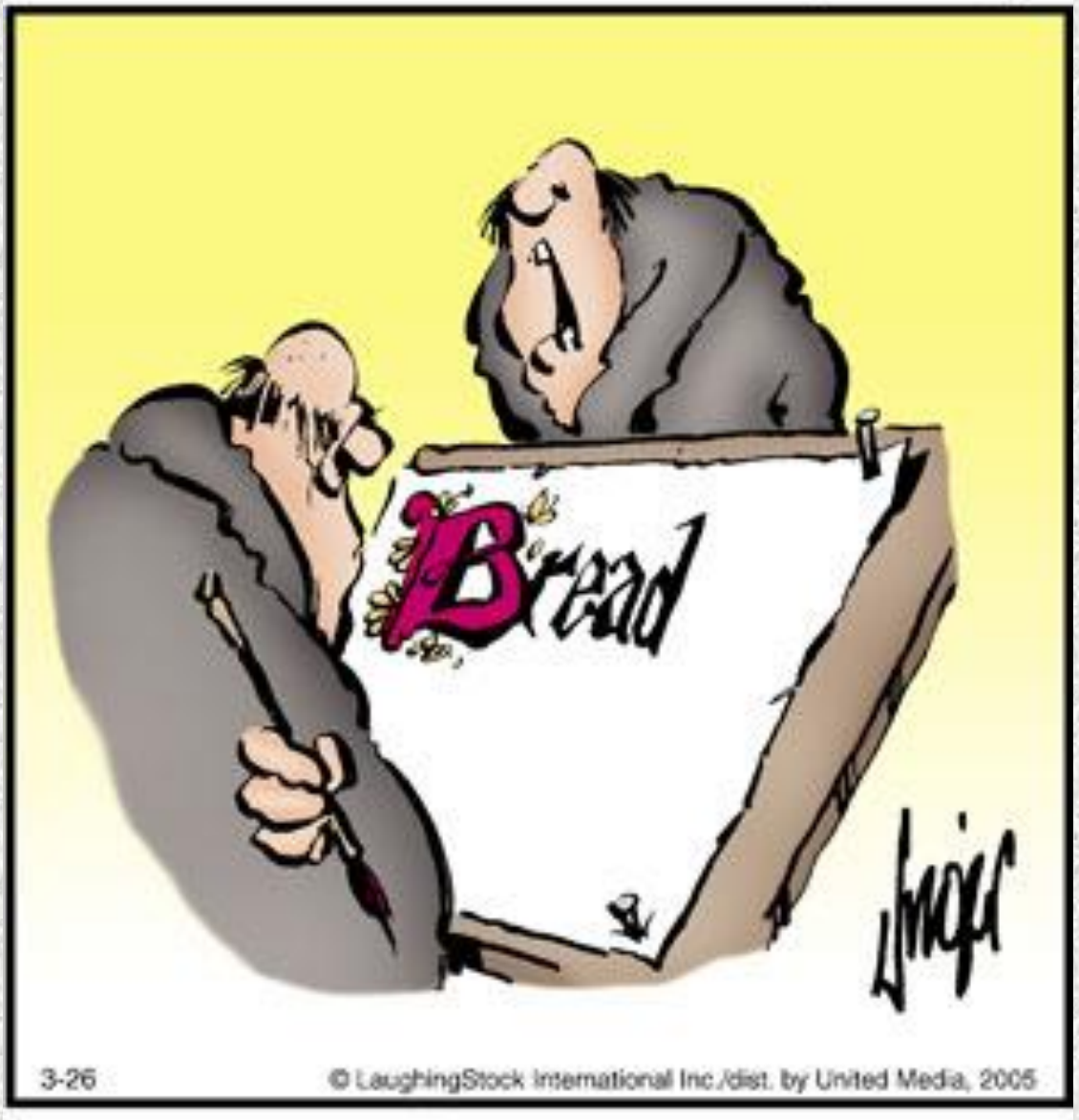
"... a professional school dedicated to developing uncommon solutions to promote the common good."

Sacramento Bee / John Decker via AP

"I was going to thank you – but then yours is a thankless job."

HERMAN®

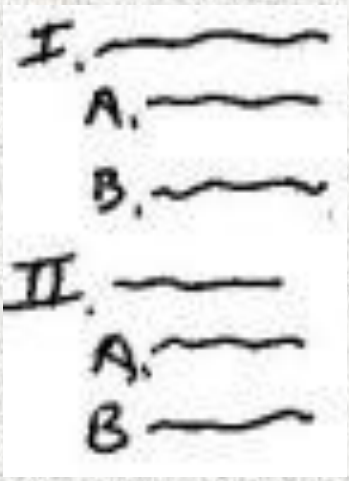
by Jim Unger



"It's a *grocery list*, Brother Clarence!"

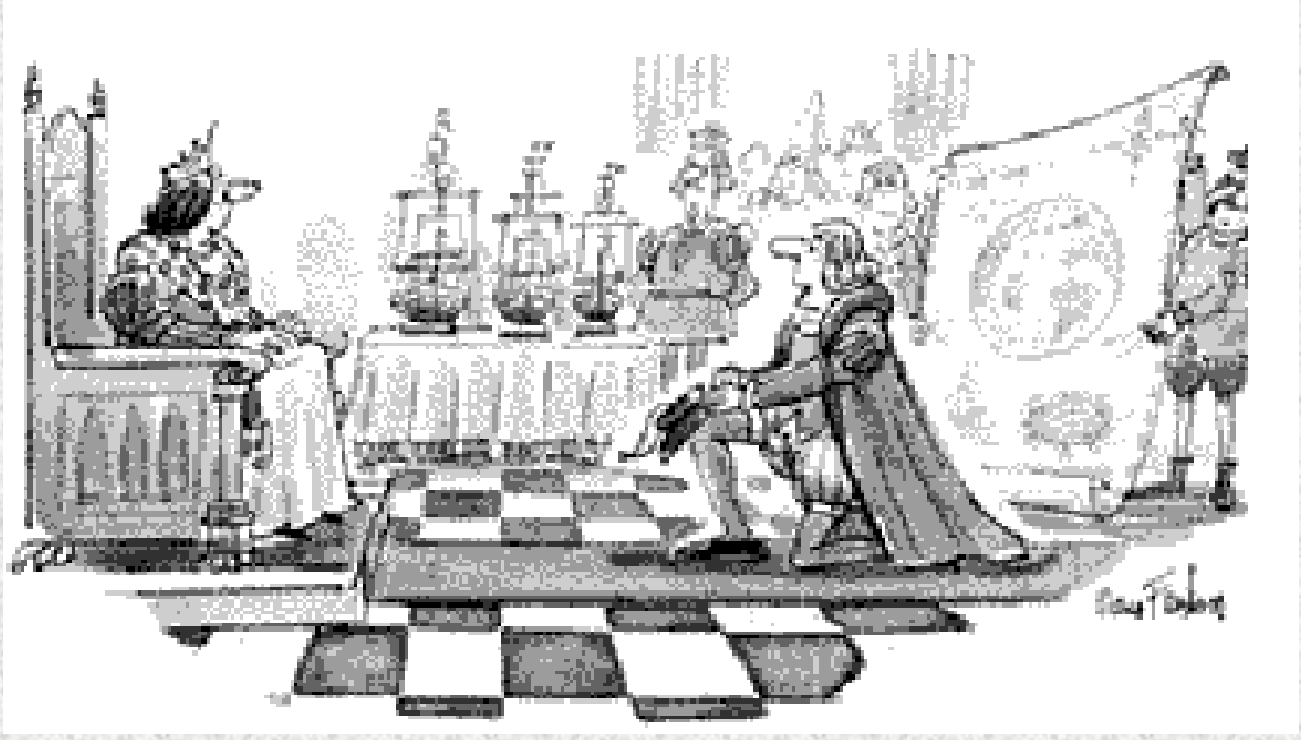
Outline

- **Background to the study**
- **What (I think) they did**
- **What questions might be raised by what they did**
- **Editorial comments**
- **(My) implications to be drawn from the study**



Background to Study

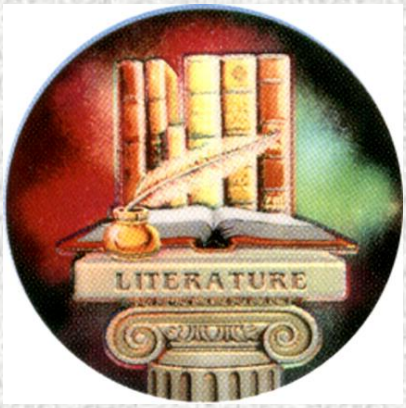
- **Longstanding international trade literature**
  - **Does trade make everyone better off?**
  - **Indirect linkage of factor markets through trade**
- **Concerns over past 2-3 decades**
  - **Rising wage inequality**
  - **Outsourcing**
- **More recent (post-study): Jobless recovery**



“Your Majesty, my voyage will not only forge a new route to the spices of the East but also create over three thousand new jobs.”

Longstanding international trade literature

- **Ricardian tale of comparative advantage**
- **Heckscher-Ohlin**
- **Stolper-Samuelson**
- **Samuelson: Factor-price-equalization**
- **The 50% puzzle**
- **The neglected trade deficit**

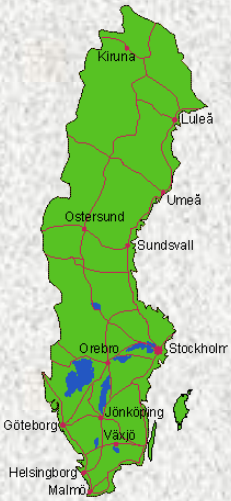


David Ricardo's tale of comparative advantage

If everyone is an identical laborer and the country is better off, than everyone is better off.

Eli Heckscher and Bertil Ohlin

- **Comparative advantage based on alternative factor supplies**
- **Opened door to income redistribution between factors**



Wolfgang Stolper and Paul Samuelson

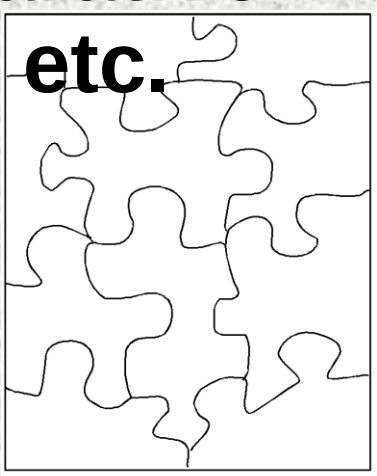
- **Protection could alter trade pattern and therefore alter income distribution between capital and labor**
- **Samuelson's factor-price equalization suggested goods mobility (trade) and factor mobility were substitutes**

Central Elements

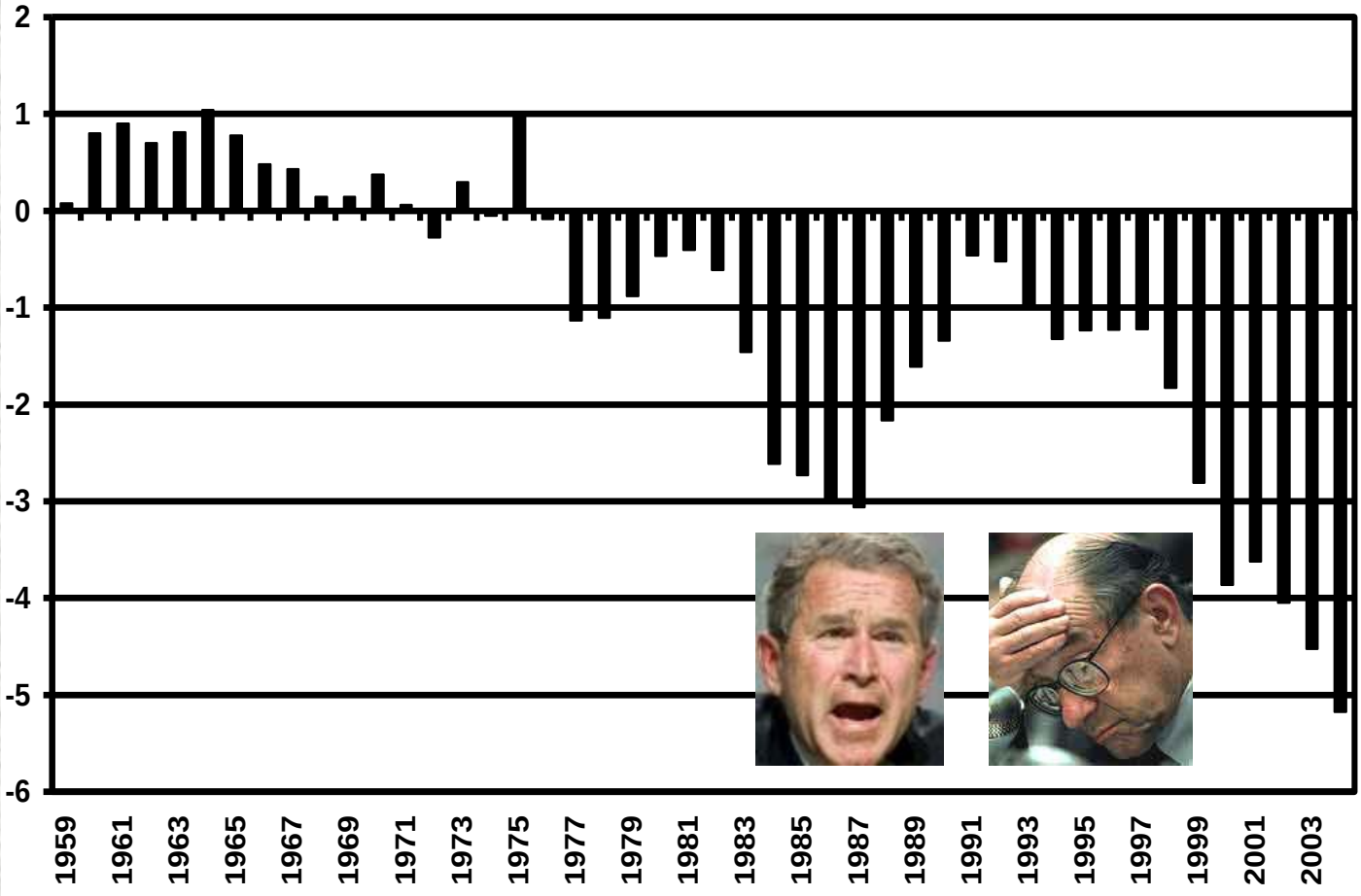
- **Wage setting in the early literature depicted as auction-style process setting a single price for homogeneous "labor"**
- **No variation by industry**
- **No variation by firm**
- **Trade based on national differences in comparative advantage**

The 50% Puzzle

- **Roughly half of US trade is with developed (similar) countries**
- **Trade theory says trade should be with countries that are different**
- **Suggests an important element of trade impact on US labor market may come from trade deficit rather than (only) shift in comparative advantage, treaties, etc.**

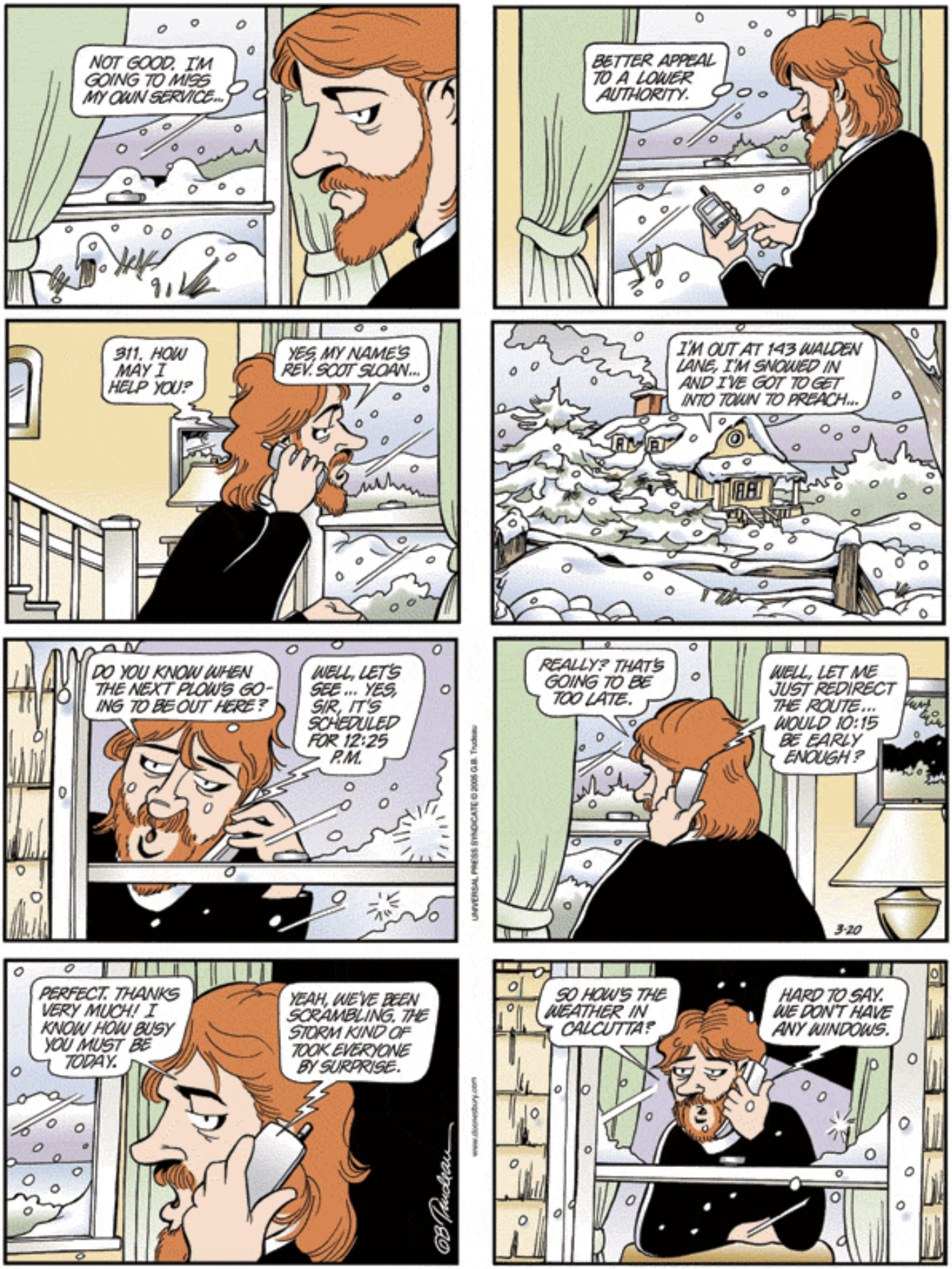


Exports Minus Imports as % of GDP



Concerns over past 2-3 decades

- **Outsourcing**


NOT GOOD. I'M GOING TO MISS MY OWN SERVICE...
BETTER APPEAL TO A LOWER AUTHORITY.
311. HOW MAY I HELP YOU?
YES, MY NAME'S REV. SCOT SLOAN...
I'M OUT AT 143 WALDEN LANE, I'M SNOWED IN AND I'VE GOT TO GET INTO TOWN TO PREACH...
DO YOU KNOW WHEN THE NEXT PLOW'S GOING TO BE OUT HERE?
WELL, LET'S SEE... YES, SIR, IT'S SCHEDULED FOR 12:25 P.M.
REALLY? THAT'S GOING TO BE TOO LATE.
WELL, LET ME JUST REDIRECT THE ROUTE... WOULD 10:15 BE EARLY ENOUGH?
3-20
PERFECT. THANKS VERY MUCH! I KNOW HOW BUSY YOU MUST BE TODAY.
YEAH, WE'VE BEEN SCRAMBLING. THE STORM KIND OF TOOK EVERYONE BY SURPRISE.
SO HOW'S THE WEATHER IN CALCUTTA?
HARD TO SAY. WE DON'T HAVE ANY WINDOWS.
UNIVERSAL PRESS SYNDICATE © 2006 G.B. Trudeau
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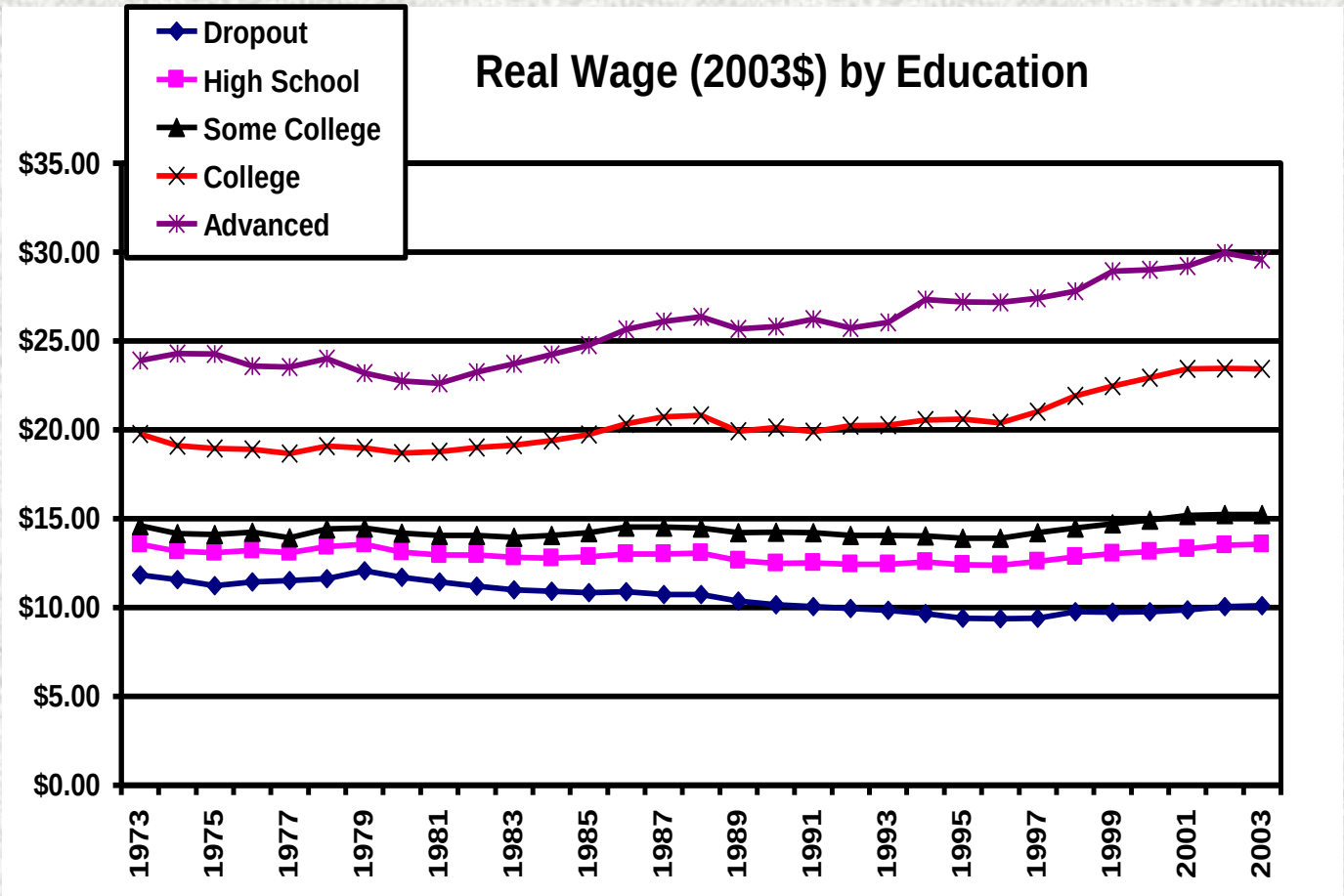
Concerns over past 2-3 decades

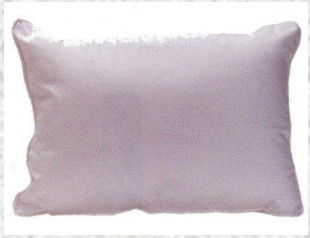
- **Outsourcing**
- **Rising wage inequality**
- **But there are other interesting labor-market phenomena**
  - **De-unionization**
  - **Shallow recessions of the early 1990s and 2000s**
  - **Downward movement in overall labor's share**
  - **Persistent labor shortages in late 1980s and 1990s**
  - **Relatively low unemployment rates**

Wage Inequality

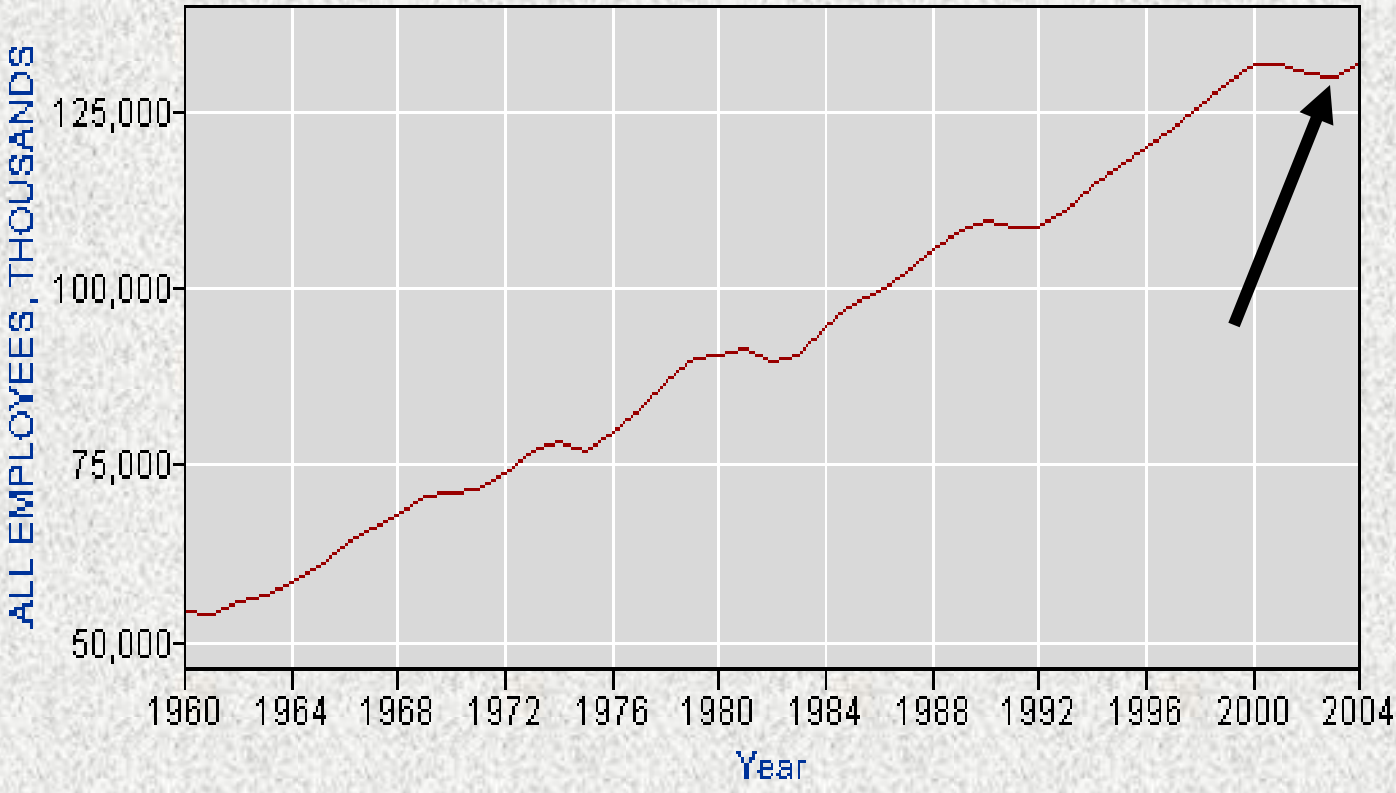


Source: EPI

Jobless Recovery in Period After This Study



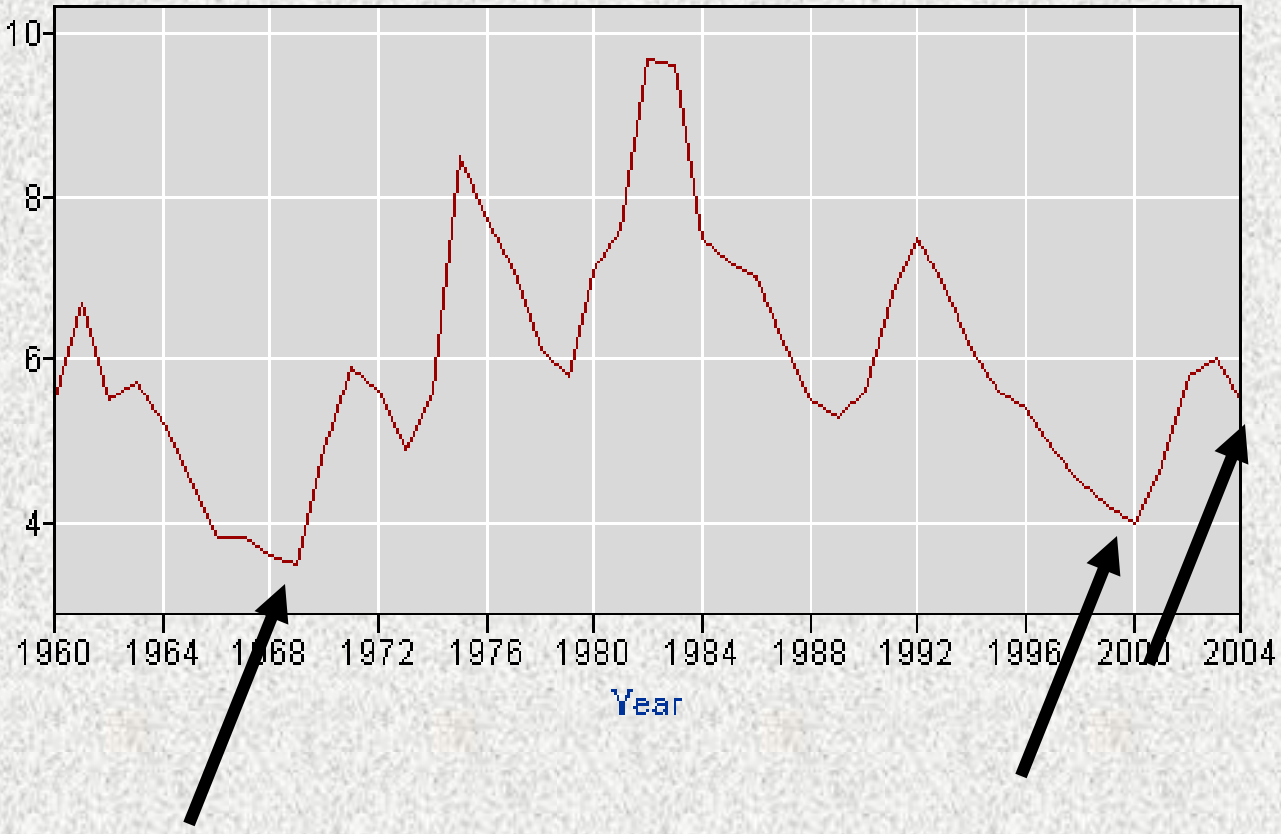
- **Soft job creation**
- **But low unemployment**
- **Suggests supply side reticence to take available jobs**



Payroll employment

Jobless Recovery in Period After This Study

- **Soft job creation**
- **But low unemployment**
- **Suggests supply side reticence to take available jobs**



Civilian Unemployment Rate

Jobless Recovery in Period After This Study

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- **But low unemployment**
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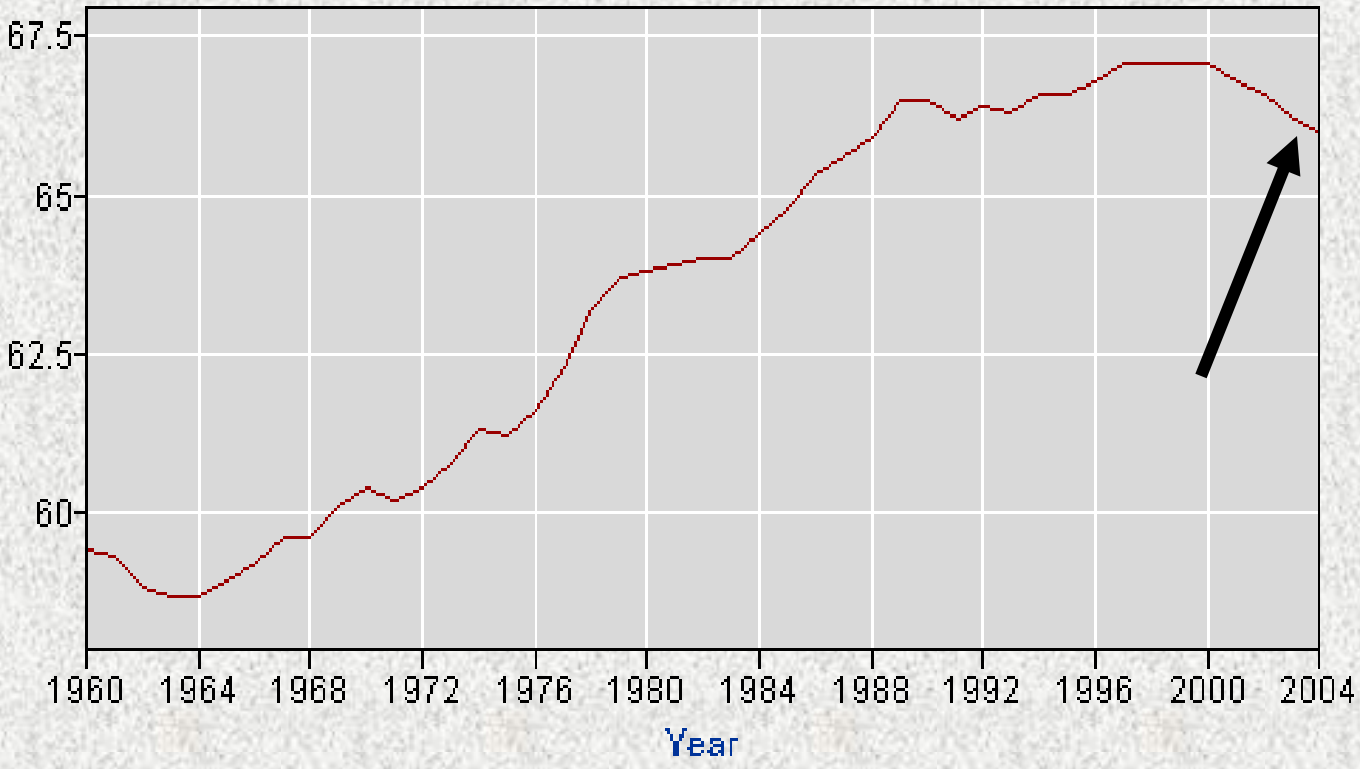


Civilian Participation Rate

Labor Shortages in 1980s and 1990s

No good time series but it's not just nurses anymore!

What (I think) Harrison-McMillan did

- **Firm-level data on US MNCs' operations abroad from BEA benchmark surveys**
- **Stylized facts of 1977-1999 period (Table 1 of paper):**
  - **Foreign affiliates proliferate**
  - **Disproportionate growth in developing countries**
  - **Labor's share of parent MNCs declines**
  - **Employment at parents declines**

What (I think) Harrison-McMillan did

- **Assumed a real wage at the firm level determined by marginal product of labor adjusted for a "rent" factor**
- **Hypothesized that rent would diminish (bargaining power of firm's workers would decrease) if firm had relatively easy access to overseas operations or if returns to capital abroad looked particularly good**

What (I think) Harrison-McMillan did

- **Ran regressions (1982-1999) with firms' labor share or real wage as function of various controls plus measures of opportunity to go abroad**
- **In some cases used industry averages rather than firm-specific data for explanatory variables**
- **Found that number of affiliates abroad lowered labor's share and real wage (opportunity – easy to go offshore)**
- **Found that returns to capital abroad lowered labor's share and real wage (attractiveness of going offshore)**

What (I think) Harrison-McMillan did

- **The Harrison-McMillan effects are incremental at firm level.**
- **The effects do not include the impact of globalization (or anything else) on <u>aggregate</u> wage setting.**
- **In principle, the effects don't include impact of globalization (or anything else) on industry wage setting. (Or do they???)**

Editorial Comments

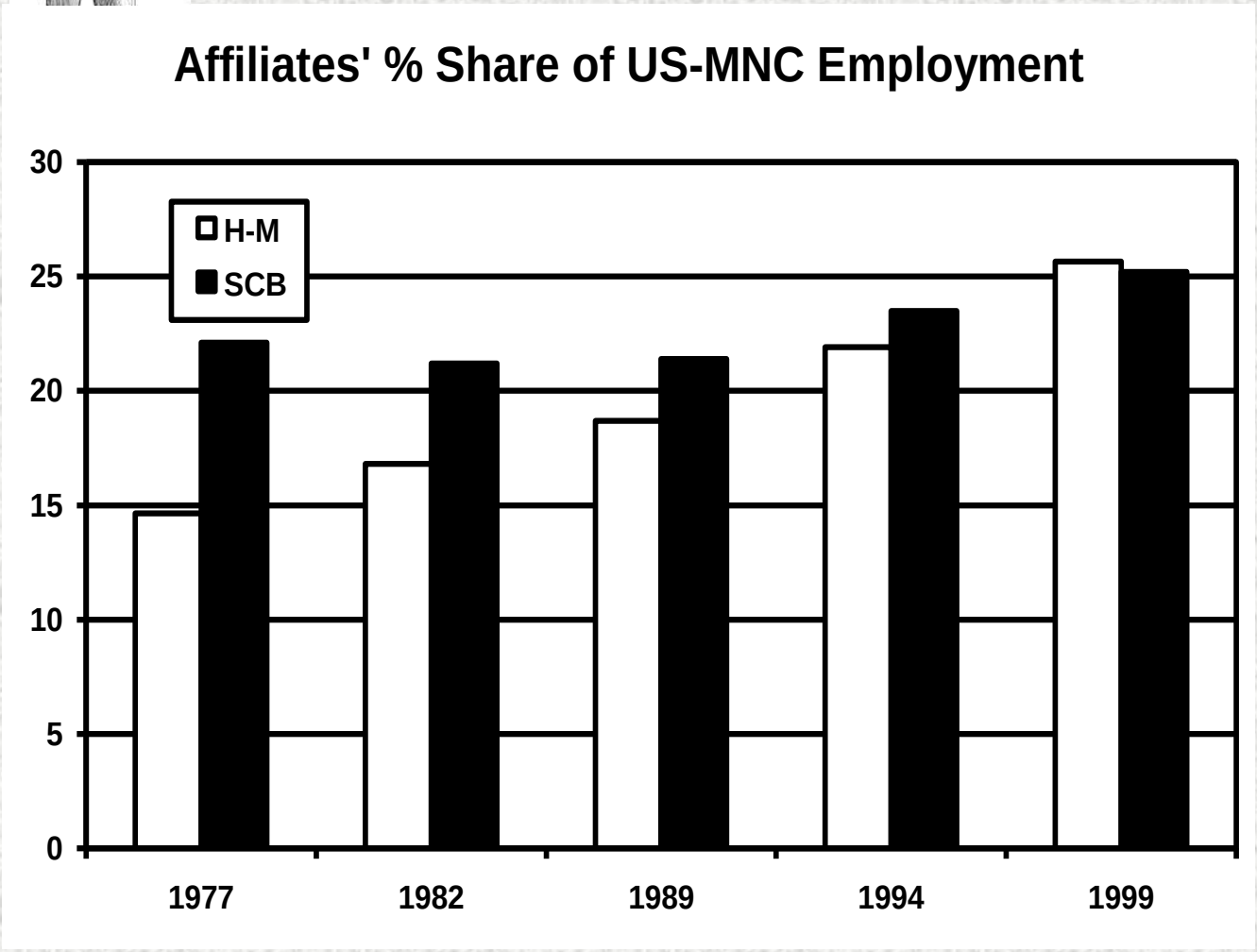
"I like it – it's wonderfully editable."

Editorial Comments

- Idea of threat effects of job loss on wages is clearly plausible
- Recent industry examples:
  - Airline concessions after deregulation and after 9/11
  - Supermarket industry and Wal-Mart
- Firm-specific examples are more difficult to cite
  - GE?
  - Double-breasted construction and cleaning firms?

1. **Variables not clearly defined**
   - Affiliates per firm?
   - Employees or capital stock per firm?
   - Definition of return on capital?
   - Need more information on vagaries of the BEA data set
2. **Specification is not obvious**
   - L and K separately rather than K/L?
   - CPI to deflate output for productivity?
   - Union variable or debt load variable?
3. **Interpretation is not obvious**
   - Is effect magnitude large or small?
   - Parents might be shutting down high wage, high share facilities without renegotiating wages

Vagaries of data set?



H-M from Table 1

SCB from March 2004, *Survey of Current Business*, p. 52

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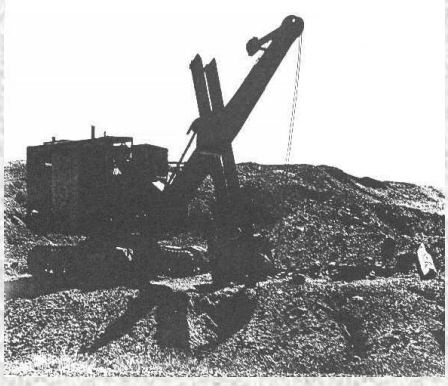
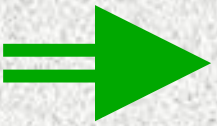


Bottom line: ***Show us that we are mining the data but not strip-mining the data***



Implications

- **Since H-M effects are incremental and firm-specific, they must understate full impact of globalism**
  - **Traditional analysis of trade effects is on aggregate wages and operates through falling labor demand**
  - **Very large US trade deficits suggest that employment is being displaced from manufacturing to non-trade sector**
- **Although early 1990s & 2000s were characterized by jobless recovery fears, experience of late 1980s and 1990s were eras of labor shortage**
- **Moreover, recent recessions have been shallow, unlike early 1980s and mid-1970s**

Implications

- **Most dramatic institutional change in US labor market over period studied has been de-unionization**
- **Suggests need to look at whether the BEA data set sheds any light on de-unionization at firm level**
- **Erickson and Mitchell argue that de-unionization does not produce textbook competition but rather a monopsonistic labor market (rent factor < 1 in H-M framework)**
- **Monopsony is consistent with tendency toward labor shortage, decreased labor share, repressed wages, shallow recessions, lower NAIRU**

Avoid bargaining metaphors

Avoid bargaining metaphors

"There are no medical or pension benefits, but the employees' lounge has excellent free coffee."

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